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C O N F I D E N T I A L SECTION 01 OF 03 HAVANA 000790

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SUBJECT: BACKWARD REFORM THROUGH PRICE CONTROLS

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1B. HAVANA 593

Classified By: COM Jonathan Farrar for reasons 1.4 (b) and (d)

SUMMARY

11. (C) The Government of Cuba's (GOC) September 29 decision to regulate prices and quantities in private farmers' markets highlights the regime's instinct for control and stability over flexibility and reform. If this new regulation becomes more than a temporary measure, the price controls will reduce the incentive for another new GOC initiative - permission for private farmers and cooperatives to use idle land with the goal of increasing domestic food production. While the new rules are officially intended to put a stop to alleged price gouging and hoarding, we expect this "emergency" measure to exacerbate food shortages, drive supplies to the black market, threaten the existence of the private markets, and limit the ability of churches and other relief organizations to purchase food and other supplies locally. End Summary.

PRICE CONTROLS: A POPULAR (POPULIST) REFORM

12. (SBU) This week's announcement represents the first time since the GOC starting permitting private "supply and demand" markets in 1994 that the government has regulated prices. The GOC "provisionally" set maximum prices for 16 products (three types of bananas, taro root, sweet potato, yucca, three types of garlic, onion, tomato, cabbage, rice, and three types of beans). According to the GOC, limits represent the prices that existed before the hurricanes. The GOC also set limits on the quantities that each person could purchase for four categories of products (rice, beans, root vegetables, and garlic). In addition, the Consumer Protection agency provided a digital scale for each market so that customers could compare the weight quoted by the vendors and identify cheaters.

13. (C) The initial Cuban reaction to the price controls was, not surprisingly, positive. As the monthly government provided ration of food usually lasts only one week, Cubans have to look elsewhere to feed their families for the remainder of the month. State-run stores and markets provide some cheaper goods, but private markets provide a better

quality and variety of goods at a slight premium. Following the hurricanes, prices at the private markets rose substantially for many goods (100 to 300 percent) due to the limited availability of products, higher transportation costs after a September 8 GOC increase in the price of fuel (Ref A), and the more dubious actions of some opportunistic suppliers and vendors. Even before the new regulation, the GOC had unleashed its propaganda machine to blame the price increases and shortages entirely on profiteering vendors and speculating middlemen. In addition to price controls, the GOC has promised swift prosecution of anyone caught stealing, hoarding, or engaging in price gouging. These government measures were initially well received by consumers who were already dealing with the unexpected costs of recovering from the hurricanes. It appears very little thought was given to how these price controls would further affect supplies.

SHORTAGES AND MORE SHORTAGES

¶4. (SBU) Even before the hurricanes, shopping at the private markets was never a predictable affair. The markets were usually packed with vendors selling a variety of goods, although the selection might change from week to week. One day you may find an abundance of sweet potato but not see any again for the next month. Most shoppers visit several markets before they find all they are looking for. Those who are able often purchase the less consistent products in bulk.

This phenomenon is even worse in the Fall, just after hurricane season, when farmers are in between harvests.

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¶5. (SBU) Immediately after the most recent hurricanes, the markets were filled with products like bananas that had fallen from trees and would soon spoil. The official media ran public service announcements on the health benefits and options for cooking with avocados because they were so abundant. Meanwhile, other products were quickly disappearing. First tomatoes, eggs, and onions, then cabbage, garlic, and fruits. By the time the GOC implemented price controls, nearly half of the regulated products were no longer available. Three days later, most markets are empty and some are completely shut down.

¶6. (SBU) In order to streamline supply and limit the number of markets to be controlled, the GOC closed some markets and started directing trucks to other state-run markets as they left farms and entered the cities. The private vendors have refused to buy many of the products that make it to their markets, complaining that they are unable to make a profit at the new state-controlled prices. In just a few short days after the announced price controls, many vendors are choosing to stay home rather than take up their stalls to sell goods at a loss. What few goods are available are sold in state-run markets, while the future of private markets is at risk. International media has compared this situation to the 1980's when the government put an end to free market farming, although the GOC has denied this intention.

¶7. (SBU) One traditional outlet for past shortages has been the black market. However, the GOC has called for extra vigilance from every citizen to help stop those who are "putting their own interests above the collective interests."

Our contacts have told us that the GOC campaign appears to be working - for now. The official media has publicized enough stories about police arresting vendors, middlemen, and even consumers for illegal transactions that most Cubans are wary of using even their most trusted sources for products "por la izquierda". Those same contacts, however, admitted that the black market will probably pick up again after a few weeks. In the meantime, the previous shortages caused by the hurricanes are compounded by shortages caused by the heavy hand of the Cuban state. While most international media has focused on shortages at the most popular markets in Havana,

civil society contacts report that shortages are much worse in provinces hit hard by the hurricanes like Holguin and Pinar del Rio.

REFORMS - ONE STEP FORWARD, TWO STEPS BACK

¶18. (SBU) One of the many ironies of the new GOC regulation is that it seems to work against the stated goal of providing more incentives for greater domestic production of food. Post hurricanes Gustav and Ike, the GOC allegedly sped up implementation of a new law permitting the delivery of idle government land to private farmers, cooperatives, and state corporations for farming and grazing, while maintaining strict government control (Ref B). First published in July and further explained in August, the GOC began accepting applications for this initiative on September 17. According to official statistics, only 45 percent (7.4 million acres) of Cuba's agricultural land is currently cultivated. The GOC claims that 19 percent (3 million acres) is idle and 36 percent (5.9 million acres) are "natural pastures". (Note: Most analysts consider the natural pastures, where grass or other vegetation grows naturally, as idle land. Thus, at least 55 percent of the agricultural land is truly idle. There is no estimate available for how much of the officially cultivated land is actually under-cultivated. End Note.)

¶19. (SBU) According to official sources, the GOC received over 16,000 applications for 509,000 acres (17 percent of all idle land) after the first three days. One of the benefits for the successful applicants is that once they cultivate the land and meet their government quotas (approximately 90 percent of their output at state-determined prices) they can sell the remaining products in the local markets. Long-term price controls at the private markets reduce the incentive to maximize production or even to apply for the idle land in the first place. In addition, new reports of GOC officials directing private farmers to sell to the state markets rather

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than the better paying private markets will further discourage food production.

PUTTING A DAMPER ON RELIEF

¶10. (C) Another side effect of the post-hurricane shortages and regulations is the difficulty churches and other relief organizations are having as they attempt to purchase food and supplies locally. The U.S.-based non-governmental organization (NGO) ACCESSO reported that Cuban NGO Caritas has explained the challenges in purchasing relief supplies locally (NOTE: On October 2, Caritas publicly asked the GOC for "genuine collaboration" with relief agencies for the delivery of post-hurricane assistance. END NOTE) A local contact with the Baptist Church told us that because of limits on how much food each person can purchase they have to travel from store to store to gather their supplies and are worried that their purchasers could be arrested as speculators. There is no exception for relief organizations. And those are the sanctioned organizations. Other groups, associated with dissidents, are banned from providing any kind of post-hurricane assistance.

COMMENT

¶11. (C) Some analysts saw the September 17 commencement of the delivery of land as a sign that the hurricanes would force Raul Castro's government to speed up its economic reforms. However, strict market regulation, a crackdown on the black market, emphasis on government control, and an appeal for more hard work and discipline better characterize

the regime's instinctive reaction to the devastation caused by hurricanes Gustav and Ike. While initially popular, the quick market reaction that resulted in further food shortages may cause many to think twice about this week's government intervention. Fidel's latest "Reflection" article on October 3 called for cutting consumption of gasoline and electricity.

Stay tuned for further shortages.

FARRAR